

**Standards and Procedures  
for Audits of  
California Counties Participating  
in the  
First 5 California  
(Children and Families) Program**



**JOHN CHIANG**  
California State Controller

August 2008

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## **PURPOSE OF THE AUDIT GUIDE**

The State Controller's Standards and Procedures for Audits of California Counties Participating in the First 5 California (Children and Families) Program is designed to assist auditors in performing the expanded annual audits of the First 5 California (Children and Families) Program in participating counties. It offers general insight into the nature and scope of the engagement and provides guidelines for performing the expanded audit necessary to comply with statutory requirements pursuant to Health and Safety Code section 130151(b). It is not intended to be a complete manual of procedures, nor is it intended to supplant the auditor's judgment. The provisions of this guide are applicable to audits of fiscal years beginning after June 30, 2007.

The expanded annual audit shall be performed in conjunction with the county commission's annual audit. The Appendix includes an illustrative audit report. The First 5 Financial Management Guide provides guidance on the annual audit (<http://f5ac.org/mguide/>).

## **AUDIT ADMINISTRATION**

### Audit Requirements

The audit will be performed in accordance with auditing standards generally accepted in the United States of America as promulgated by the American Institute of Certified Internal Public Accountants and the standards applicable to financial audits set forth in Government Auditing Standards, issued by the Comptroller General of the United States.

### Audit Report Due Date

In accordance with Health and Safety Code section 130151(c), each county commission's auditor shall submit the audit report for the preceding fiscal year by November 1. The report must be filed with the State Controller's Office (SCO) and with the state commission at the following addresses.

State Controller's Office	First 5 California
Division of Audits	ATTN: Administrative Services Division
ATTN: First 5 Audit Oversight Unit	2389 Gateway Oaks Drive, Ste. 260
P.O. Box 942850	Sacramento, CA 95833
Sacramento, CA 94250-5874	

### Late Audit Reports

The state commission shall withhold the county commission's funds from the California Children and Families Trust Fund until the county commission submits the required audit report. [Health and Safety Code section 130150(b)(3)]

### Unresolved Audit Findings

The SCO shall determine whether the county commission successfully corrected its practices relating to any findings identified in the audit report. The SCO may recommend to the state commission that it withhold the allocation of money that the county commission would otherwise receive from the California Children and Families Trust Fund. [Health and Safety Code section 130151(e)]

### Quality Control Reviews

Health and Safety Code section 130151(a) authorizes the State Controller's Office to conduct quality control reviews. The county commission's auditor shall make audit documentation available to the SCO upon request. The county commission's auditor shall maintain the audit documentation for a minimum of seven years as required in section 5097(e) of the Business and Professions Code.

### **AUDIT OBJECTIVES**

The general objectives of each expanded audit are to determine whether the county commission:

- Established contracting and procurement policies pursuant to paragraph (4) of subdivision (d) of Health and Safety Code section 130140; operated in accordance with these policies; and incorporated into these policies provisions to ensure that the commission's grants and contracts are consistent with its strategic plan.
- Established administrative cost definitions that comply with the state commission's guidelines and established a process for monitoring these costs.
- Established conflict-of-interest policies and procedures pursuant to paragraph (4) of subdivision (d) of Health and Safety Code section 130140 and complied with all applicable state and local conflict-of-interest statutes and regulations.
- Established policies and practices designed to ensure its adherence to the county ordinance established pursuant to Health and Safety Code section 130140(a)(1).
- Created a long-range financial plan and formally adopted it in a public hearing.
- Communicated its financial condition as required by law.
- Documented its program evaluation expenditure amounts and results.
- Established salaries and benefits policies and whether its employee salaries and benefits complied with the policies it adopted pursuant to paragraph (6) of subdivision (d) of the Health and Safety Code section 130140.

### **BACKGROUND**

The California Children and Families Act of 1998, an initiative measure, requires that the California Children and Families Program, established by the Act, be funded by surtaxes imposed on the sale and distribution of cigarettes and tobacco products and deposited into the California Children and Families Trust Fund. The money deposited into the fund shall be used for the implementation of comprehensive early childhood development and smoking prevention programs.

Existing law established a state commission, First 5 California, with powers and duties relating to the administration of the Act at the state level, and authorizes a county's board of supervisors to establish a county children and families commission to administer the Act at the county level.

Providing certain requirements are met, a county commission receives a portion of the total funds available to all county commissions equal to the percentage of the number of births recorded in that county relative to the number of births recorded in all of the counties participating in the First 5 California (Children and Families) Program.

Health and Safety Code section 130150 requires each county commission, on or before October 15 of each year, to conduct an audit of, and issue a written report on the implementation and performance of, its functions during the preceding fiscal year. Section 130150 also requires the state commission to prepare a written report that consolidates, summarizes, analyzes, and comments on the annual audits and reports submitted by all of the county commissions.

Health and Safety Code section 130151 directs the SCO to issue guidelines for expanded annual audits of each county commission and to perform associated quality control functions.

## **STATE COMPLIANCE REQUIREMENTS**

### Contracting and Procurement

Compliance Requirement:

County commissions must adopt in a public hearing, contracting and procurement policies that are consistent with the following state law(s):

- Government Code, article 7, section 54201 (Purchases of Supplies & Equipment by Local Agencies);
- Public Contract Code, chapter 2, section 2000 (Responsive Bidders);
- Public Contract Code, chapter 3, article 5, section 3410 (Preference for Nationally Grown Produce and Processed Foods in Contract of Public Entity for Purchase of Food); and
- Public Contract Code, chapter 3.5, section 22150 (Recycled Product Procurement Mandates Pertaining to Local Governments).

The contracting and procurement policies must contain provisions to ensure that the grants and contracts are consistent with the county commission's strategic plan. [Health and Safety Code sections 130140(d)(4) and 130151(b)(1)]

Suggested Audit Procedures:

1. Obtain the minutes to confirm that the commission adopted in a public hearing/meeting, its contracting and procurement policies, including the applicable amendments to the policies.
2. Obtain the county commission's written contracting and procurement policies and gain an understanding of how they are applied.
3. Obtain a representation letter from the commission's legal representative stating whether or not the commission's contracting and procurement policies are consistent with state law.
4. Test a representative sample of contract and procurement transactions to supporting source documentation, as follows:
  - a. Determine whether the transactions are in compliance with the commission's contracting and procurement policies (e.g., test for evidence of contract splitting, which occurs when multiple contracts are awarded to a single contractor in order to avoid monetary limits).
  - b. Determine whether expenditures are consistent with those identified in contracts and other types of agreements (e.g., grants, contracts, and memoranda of understanding).
  - c. Verify that the commission has determined whether grants, contracts, and other types of agreements are consistent with the commission's strategic plan.

5. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

#### Administrative Costs

##### Compliance Requirement:

Administrative cost definitions must comply with the state commission's guidelines and the county commission must have a process in place to monitor these costs. [Health and Safety Code section 130140(d)(5) and section 130151(b)(2)]

##### Suggested Audit Procedures:

1. Review the minutes to confirm that the commission adopted, in a public hearing/meeting, a limit on the percentage of the operating budget that may be spent on administrative functions.
2. Determine whether the administrative costs definition is consistent with the state commission guidelines that define administrative functions.
3. Verify through inquiry and inspection whether the county commission has implemented a system to monitor its administrative costs.
4. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

#### Conflict of Interest

##### Compliance Requirement:

County commissions must adopt conflict-of-interest policies for commission members that are consistent with applicable state law.

- Government Code, article 4, section 1090, et seq. (Prohibitions Applicable to Specified Officers);
- Government Code, article 4.7, section 1125, et seq. (Incompatible Activities), and;
- Government Code, chapter 7, section 87100, et seq. (Conflict of Interest).

These conflict-of-interest policies must be designed to assure that the county commission complies with all applicable state and local conflict-of-interest statutes and regulations. [Health and Safety Code sections 130140(d)(4) and 130151(b)(3)]

##### Suggested Audit Procedures:

1. Review the commission's public hearing/meeting minutes to confirm that the county commission has adopted conflict-of-interest policies.
2. Obtain a representation letter from the county commission's legal representative stating whether or not the conflict-of-interest policies are consistent with applicable state and local conflict-of-interest statutes and regulations.

3. Determine whether the commission is complying with the conflict-of-interest policies and procedures.
4. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

#### County Ordinance

##### Compliance Requirement:

The county commission must adopt policies and practices to assure that it is adhering to the county ordinance establishing the commission. The ordinance must be adopted by the county's board of supervisors and contain the minimum provisions specified in Health and Safety Code section 130140(a)(1). [Health and Safety Code section 130140(a)(1), section 130140(d)(1) and section 130151(b)(4)]

##### Suggested Audit Procedures:

1. Obtain a management representation letter that describes how the commission is complying with each component of the ordinance.
2. Perform the following procedures to verify that the county commission followed its written policies and procedures for adherence to the county ordinance.
  - a. Review source documents (e.g., commission by-laws, organization charts, minutes, and accounting records) to verify that the county commission complied with the county ordinance.
  - b. Obtain the commission minutes to confirm that the commission conducted the annual review of the strategic plan.
  - c. If the commission made any revisions to the strategic plan, review the minutes to confirm that it conducted at least one public hearing/meeting before it adopted the revisions to the plan.
3. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

#### Long-Range Financial Plans

##### Compliance Requirement:

The county commission must have a long-range financial plan that has been adopted in a public hearing. [Health and Safety Code section 130151(b)(5)]

##### Suggested Audit Procedures:

1. Verify that the county commission has a long-range financial plan.
2. Review the minutes to confirm that the county commission formally adopted a long-range financial plan.
3. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report.

### Financial Condition of the Commission

#### Compliance Requirement:

The county commission must have policies and practices with respect to its financial condition. [Health and Safety Code section 130151(b)(6)]

#### Suggested Audit Procedures:

1. Verify that the county commission has policies and practices with respect to communicating its financial condition. At a minimum it should include the annual audit required by the state commission guidelines.
2. If noncompliance is identified through the foregoing audit procedure, include a finding in the Findings and Recommendations section of the audit report.

### Program Evaluation

#### Compliance Requirement:

The county commission must have policies and practices with respect to the amount it spends on program evaluation and the documented results of these expenditures. [Health and Safety Code section 130151(b)(7)]

#### Suggested Audit Procedures:

1. Verify that the amount spent on program evaluation is in compliance with the commission's policies and/or practices on evaluation costs (e.g., the adopted budget, commission minutes, funding resolution, or board action). For guidance refer to Section 6.2 of the First 5 Financial Management Guide.
2. Confirm the existence of evaluation data collected and/or reports prepared on program evaluation. Evidence may be in the form of minutes of meetings at which evaluation results were presented, or written reports or other data files that document program evaluation.
3. Include a statement in the notes to the financial statements that identifies the amount spent on program evaluation during the period under audit. Examples are as follows:

#### Program Evaluation

The commission spent \$\_\_\_\_\_ on program evaluation during the audit period.

*or*

The commission did not maintain documentation to identify the amount spent on program evaluation during the audit period.

4. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report.



### Salaries and Benefit Policies

#### Compliance Requirement:

The county commission must adopt, in a public hearing, policies and procedures for establishing salaries and benefits of its employees. The employees' salaries and benefits policies must comply with those set forth in the commission policies or the county government policies. [Health and Safety Code section 130151(b)(8) and 130140 (d)(6)]

#### Suggested Audit Procedures:

1. Obtain the minutes to confirm that the commission has adopted salaries and benefits policies and procedures.
2. Test a representative sample of payroll and benefit transactions. Verify that the actual salaries and benefits of commission employees are consistent with the salaries and benefits policies adopted by the commission.
3. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

**Appendix A—  
Illustrative Audit Report**

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## **ILLUSTRATIVE AUDIT REPORT**

### Special Note

The illustrative audit report that follows includes the following:

- The independent auditor's report on the financial statements (page A-3)
- The independent auditor's report on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with *Government Auditing Standards* (page A-4)
- The independent auditor's report on state compliance (page A-6)

The illustrations are not intended to be all-inclusive or representative of the specific reporting requirements for a particular county commission audit. Only the independent auditor performing the audit can make those professional judgments and determinations.

The county commission's management discussion and analysis, the financial statements, corresponding note disclosures and required supplementary information should be presented as prescribed in the American Institute of Certified Public Accountants' (AICPA) *Audit Guide for State and Local Governments*. Other supplementary information should be presented as prescribed by the state commission and/or county.

Additional reference materials that should be consulted in conducting the audit, include but are not limited to, the following.

- *Government Auditing Standards* published by the Comptroller General of the United States
- *Codification of Governmental Accounting and Financial Reporting Standard*, issued by the Governmental Accounting Standards Board

***[Independent Auditor's Letterhead]***

Board of Commissions  
ABC County Children and Families Commission  
Irvine, CA 90XXX

**INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities and each major fund of the ABC County Children and Families Commission, a component unit of ABC County, as of and for the year ended June 30, 20XX, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the ABC County Children and Families Commission as of June 30, 20XX, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated *[date of report]* on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in the results of our audit.

The Management's Discussion and Analysis on pages XX through XX is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the ABC County Children and Families Commission's basic financial statements. The organization table and summary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

***[Manual or Printed Signature of Firm]***

***[Date]***

***[Independent Auditor's Letterhead]***

Board of Commissions  
ABC County Children and Families Commission  
Irvine, CA 90XXX

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of ABC County Children and Families Commission, a component unit of ABC County, as of and for the year ended June 30, 20XX, and have issued our report thereon dated *[date of report]*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller general of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.<sup>1</sup>

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with the provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.<sup>1</sup>

This report is intended solely for the information and use of the County Board of Supervisors, the County Commission, the State Commission, the State Controller's Office, federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

***[Manual or Printed Signature of Firm]***

***[Date]***

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<sup>1</sup> This section of the report should be modified if findings were noted. Refer to the AICPA's *Audit Guide for State and Local Governments* for guidance.

***[Independent Auditor's Letterhead]***

Board of Commissions  
ABC County Children and Families Commission  
Irvine, CA 90XXX

**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

We have audited the basic financial statements of the ABC County California Children and Families Commission, a component unit of ABC County, as of and for the year ended June 30, 20XX and have issued our report thereon dated *[date of report]*.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California Counties Participating in the First 5 California (Children and Families) Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Commission's management is responsible for the Commission's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the laws and regulations applicable to the following items.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u> <sup>1</sup>
Contracting and Procurement	6	
Administrative Costs	3	
Conflict-of-Interest	3	
County Ordinance	4	
Long-range Financial Plans	2	
Financial Condition of the Commission	1	
Program Evaluation	3	
Salaries and Benefit Policies	2	

Based on our audit we found that, for the items tested, the ABC County California Children and Families Commission complied with the laws and regulations of the items referred to above, **except as described in Finding X in the Findings and Recommendations section of this report**. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Commission had not complied with the laws and regulations of the First 5 California (Children and Families) Program.

This report is intended solely for the information of the County Board of Supervisors, the County Commission, the State Commission, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

***[Manual or Printed Signature of Firm]***  
***[Date]***

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<sup>1</sup> Indicate "yes" or "no." If the response is "no," include a statement explaining why procedures were not performed.

## **Appendix B— Audit Guide Revision Log**

<b>Revision Date</b>	<b>Revision Description</b>	<b>Revised Page</b>
July 2007	<u>Added</u> specific language regarding standards to be followed in performing the audit	Page 1
July 2007	<u>Updated</u> the name and address of the Commission in the report submission/due date section.	Page 1
July 2007	<u>Added</u> specific procurement code sections specified in AB 2932 to Contracting & Procurement audit area.	Page 3
July 2007	<u>Added</u> specific conflict of interest code sections specified in AB 2932 to Conflict of Interest audit area.	Page 4
July 2007	<u>Added</u> Appendix B to track audit guide changes	Appendix B (B-1)
September 2007	<u>Corrected</u> number of audit procedures listed under County Ordinance in Appendix A	Appendix A (A-6)
September 2007	<u>Updated</u> the report language in the sample report in Appendix A to reflect Statement on Auditing Standards 112	Appendix A (A-4)
July 2008	<u>Updated</u> Dates	Cover Page, Page 1
July 2008	<u>Added</u> statutory reference for the Audit Report due date	Page 1
July 2008	<u>Verified</u> statutory references and examples	All
August 2008	<u>Corrected</u> statutory reference for the Audit Report due date	Page 1